

## Message Text

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ACTION XMB-04

INFO OCT-01 EUR-12 ISO-00 EB-08 OMB-01 FRB-03 L-03  
INR-10 TRSE-00 PM-05 /047 W  
-----047886 311738Z /43

R 311708Z AUG 78  
FM AMEMBASSY MADRID  
TO SECSTATE WASHDC 5940  
SECDEF WASHDC  
INFO CSA WASHDC  
CDR USASAC ALEXANDRIA VA  
CDR USACC FT HUACHUCA AZ  
CDR USACSA FT MONMOUTH  
USCINCEUR VAIHINGEN GER

C O N F I D E N T I A L SECTION 01 OF 02 MADRID 10045

CDR USASAC ALEXANDRIA VA FOR DRCDs; CDR USACC FT HUACHUCA  
AZ FOR CC-CG; CDR USACSA FT MONMOUTH NJ FOR CCM-CG; SECDEF  
FOR ASD/ISA AND DSAA

E.O.11652:GDS  
TAGS: MASS, SP, US  
SUBJ: TERRITORIAL COMMAND NET (TCN) FOR SPAIN -- PAYMENTS  
12 AND 13

REFS: (A) MADRID 07084 (DTG 231455Z JUN 78); (B) JUSMG  
MADRID 291352Z JUN 78); (C) STATE 168194 (DTG 031722Z JUL  
78); (D) MADRID 09069 (DTG 071434Z AUG 78); (E) STATE  
209997 (DTG 181539Z AUG 78); (F) JUSMG MADRID 250702Z AUG  
78; (G) JUSMG MADRID 241630Z AUG 78; (H) JUSMG MADRID  
281117Z AUG 78

1. SUMMARY: INTENSIVE US EFFORTS SINCE LATE SPRING TO OB-  
TAIN FULL SPANISH PAYMENT OF THE BASIC COST OF FMS CASE UKJ  
(VIA COMPLETION OF PAYMENTS 12 AND 13) REMAIN STYMIED OVER  
(A) PROBLEMS IN THE SPANISH TREASURY'S ARRANGEMENTS WITH  
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EXIM, (B) A QUESTION OF PRINCIPLE IN THE WORDING OF A  
FORMAL US REQUEST FOR PAYMENT 13, AND (C) DIFFERENCES OVER  
THE COMPOSITION OF PAYMENT 13. THIS MESSAGE SUGGESTS IM-  
MEDIATE MEASURES AND REQUESTS INSTRUCTIONS. END SUMMARY

2. IN THE JOINT COMMITTEE FOR POLITICO-MILITARY ADMINIS-  
TRATIVE AFFAIRS (PMAA), THE SPANISH HAVE OBJECTED TO THE

WORDING PROPOSED BY WASHINGTON IN JULY (REF C) FOR A FORMAL US REQUEST THAT PAYMENT 13 BE MADE IN FULL, ON THE GROUNDS THAT IT IS PREJUDICIAL TO THE SPANISH POSITION OF PRINCIPLE ON THE NATURE OF THE TCN PROJECT (FMS CASE OR SPECIAL BILATERAL ARRANGEMENT) AND THAT IT FAILS TO GUARANTEE CONTRACCCR PPRRRRMANCE' THEY HAVE RAISED NEW ISSUES REGARDING THE AMOUNT AND COMPOSITION OF THE PAYMENT, WHICH THEY WISH TO MAKE PARTLY IN NON-CONVERTIBLE CURRENCY. (REFS (F) AND (H) CONTAIN THE TEXT OF THE SPANISH MEMORANDUM.) THE SPANISH TREASURY, MEANWHILE, WILL NOT MOVE FORWARD ON EITHER PAYMENT, OR ON SIGNING AN EXTENSION OF THE EXIM BANK LOAN WHICH PROVIDES PARTIAL FUNDING FOR THE PROJECT, UNTIL THE ISSUE OF THE INTEREST RATE ON THE PREVIOUS LOAN EXTENSION IS SETTLED (REFS (D) AND (E). IT WOULD APPEAR FROM REF (E) THAT SOME PROGRESS IS BEING MADE BETWEEN EXIM AND THE SPANISH TREASURY.

3. TAKING THESE ISSUES ONE AT A TIME:

A. TO OBTAIN PAYMENT 13 IN A WAY WHICH DOES NOT DO VIOLENCE TO THE LEGAL POSITION OF EITHER SIDE, THE SPANISH ARGUE, IT WILL BE NECESSARY TO DELETE ANY SPECIFIC REFERENCE IN OUR REQUEST TO FMS CASE UKJ. WE BELIEVE A SJITABLE SUBSTITUTE COULD BE A REFERENCE TO "PAYMENT 13 FOR THE TERRITORIAL COMMAND NET."

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B. THE SPANISH MEMO OF AUGUST 4 ALSO RESURRECTS THE ISSUE OF A GUARANTEE OF CONTRACTOR PERFORMANCE, BUT IN A NEW AND SOFTER FORMULATION. WE HAD TAKEN THE POSITION ON THE JUNE 21 PMAA MEETING (REF A) THAT WE COULD NOT MAKE OPENENDED GUARANTEES OF CONTRACTOR PERFORMANCE, AND LATTER WERE LED TO BELIEVE THE SPANISH WOULD ACCEPT THE OMISSION OF ANY SUCH GUARANTEE LANGUAGE IN OUR REQUEST FOR PAYMENT. THE NEW WORDING, PROPOSED BY THE SPANISH, CALLS FOR THE US ARMY TO GUARANTEE THAT THE CONTRACTOR WILL CONTINUE TO WORK UNTIL TCN IS "TOTALLY COMPLETED IN ACCORDANCE WITH SPECIFICATIONS." AN ACCEPTABLE COMPROMISE SEEMS POSSIBLE. TO GET AROUND THIS PROBLEM AND THAT DESCRIBED IN SUB-PARA (A), WE PROPOSE THE FOLLOWING REVISED TEXT OF A REQUEST BY THE US SIDE OF THE PMAA FOR EARLY SPANISH COMPLETION OF PAYMENT 13: "THE USG REQUESTS THE GOS TO PAY THE REMAINING BALANCE DUE OF PAYMENT 13 FOR THE TERRITORIAL COMMAND NET. IN MAKING THIS REQUEST, THE USG AGREES THAT THIS PAYMENT WOULD NOT CONSTITUTE EITHER TECHNICAL ACCEPTANCE OF THE TERRITORIAL COMMAND NET OR ACCEPTANCE OF THE RESPONSIBILITY TO PAY ADDITIONAL FINANCIAL CLAIMS PRESENTED BY THE US ARMY. FURTHER, EVERY EFFORT WILL CONTINUE TO BE MADE BY THE USG TO ENSURE THAT

THE TERRITORIAL COMMAND NET WILL BE COMPLETED BY THE CONTRACTOR IN ACCORDANCE WITH THE SPECIFICATIONS OF THE CONTRACT."

C. AS FOR THE AMOUNT AND COMPOSITION OF PAYMENT 13, IT IS OUR UNDERSTANDING THAT DSAA PREFERS PAYMENT ENTIRELY IN DOLLARS, NOT A MIX OF DOLLARS AND PESETAS AS PROPOSED BY THE SPANISH. THIS IS A TECHNICAL QUESTION, WHICH SHOULD NOT BE DEBATED IN THE PMAA, WHERE THE NECESSARY EXPERTISE IS LACKING. SUBJECT TO WASHINGTON VIEWS, WE WILL URGE THAT THIS MATTER BE DEALT WITH IN ARMY-TO-ARMY CHANNELS,

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INR-10 TRSE-00 PM-05 /047 W  
-----047942 311738Z /43

R 311708Z AUG 78  
FM AMEMBASSY MADRID  
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AND WOULD HOPE DSAA COULD ISSUE THE NECESSARY INSTRUCTIONS SOON TO MAAG SPAIN (ARMY SECTION).

D. WITH RESPECT TO THE EXIM LOAN, DISCUSSIONS BETWEEN EXIM AND THE SPANISH TREASURY ARE IN TRAIN AND SEEM THE BEST PATH TO PURSUE FOR THE MOMENT. PERHAPS THEY COULD BE ACCELERATED.

E. WE BELIEVE IT WOULD CONTRIBUTE TO THE SUCCESS OF THE EXPECTED VISIT TO WASHINGTON ON OR ABOUT SEPTEMBER 18 OF A SPANISH TECHNICAL/POLICY TEAM ON TCN TO MOVE AS FAR AS WE CAN ON PAYMENTS 12 AND 13 DURING THE INTERIM.

5. REQUEST EARLY COMMENT ON THE SEVERAL RECOMMENDATIONS SPELLED OUT IN PARA 3. AS STATED IN REF (G), WE ALSO NEED

SOONEST THE US RESPONSE TO THE SPANISH LEGAL MEMORANDUM  
OF JUNE 14 (JUSMG-MAAG 161415Z JUN 78), WHICH ON INSTRUCTIONS  
WE FORECAST TO THE SPANISH WOULD BE RECEIVED BY THE END OF  
JULY BUT WHICH HAS STILL NOT ARRIVED. TODMAN

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## Message Attributes

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**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** LOANS, MILITARY ASSISTANCE PROGRAMS, MILITARY PLANS  
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**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
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**Review Markings:**  
Sheryl P. Walter  
Declassified/Released  
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20 Mar 2014  
**Markings:** Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014